Companies Act 2006

Chapter 2 Accounting records

386 Duty to keep accounting records

(1) Every company must keep adequate accounting records.

(2) Adequate accounting records means records that are sufficient—

(a) to show and explain the company’s transactions,

(b) to disclose with reasonable accuracy, at any time, the financial position of the company at that time, and

(c) to enable the directors to ensure that any accounts required to be prepared comply with the requirements of this Act (and, where applicable, of Article 4 of the IAS Regulation).

(3) Accounting records must, in particular, contain—

(a) entries from day to day of all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place, and

(b) a record of the assets and liabilities of the company.

(4) If the company’s business involves dealing in goods, the accounting records must contain—

(a) statements of stock held by the company at the end of each financial year of the company,

(b) all statements of stocktakings from which any statement of stock as is mentioned in paragraph (a) has been or is to be prepared, and

(c) except in the case of goods sold by way of ordinary retail trade, statements of all goods sold and purchased, showing the goods and the buyers and sellers in sufficient detail to enable all these to be identified.

(5) A parent company that has a subsidiary undertaking in relation to which the above requirements do not apply must take reasonable steps to secure that the undertaking keeps such accounting records as to enable the directors of the parent company to ensure that any accounts required to be prepared under this Part comply with the requirements of this Act (and, where applicable, of Article 4 of the IAS Regulation).

387 Duty to keep accounting records: offence

(1) If a company fails to comply with any provision of section 386 (duty to keep accounting records), an offence is committed by every officer of the company who is in default.

(2) It is a defence for a person charged with such an offence to show that he acted honestly and that in the circumstances in which the company's business was carried on the default was excusable.

(3) A person guilty of an offence under this section is liable—

(a) on conviction on indictment, to imprisonment for a term not exceeding two years or a fine (or both);

(b) on summary conviction—

(i) in England and Wales, to imprisonment for a term not exceeding twelve months or to a fine not exceeding the statutory maximum (or both);

(ii) in Scotland or Northern Ireland, to imprisonment for a term not exceeding six months, or to a fine not exceeding the statutory maximum (or both).

388 Where and for how long records to be kept

(1) A company's accounting records—

(a) must be kept at its registered office or such other place as the directors think fit, and

(b) must at all times be open to inspection by the company's officers.

(2) If accounting records are kept at a place outside the United Kingdom, accounts and returns with respect to the business dealt with in the accounting records so kept must be sent to, and kept at, a place in the United Kingdom, and must at all times be open to such inspection.

(3) The accounts and returns to be sent to the United Kingdom must be such as to—

(a) disclose with reasonable accuracy the financial position of the business in question at intervals of not more than six months, and

(b) enable the directors to ensure that the accounts required to be prepared under this Part comply with the requirements of this Act (and, where applicable, of Article 4 of the IAS Regulation).

(4) Accounting records that a company is required by section 386 to keep must be preserved by it—

(a) in the case of a private company, for three years from the date on which they are made;

(b) in the case of a public company, for six years from the date on which they are made.

(5) Subsection (4) is subject to any provision contained in rules made under section 411 of the Insolvency Act 1986 (c. 45) (company insolvency rules) or Article 359 of the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)).

389 Where and for how long records to be kept: offences

(1) If a company fails to comply with any provision of subsections (1) to (3) of section 388 (requirements as to keeping of accounting records), an offence is committed by every officer of the company who is in default.

(2) It is a defence for a person charged with such an offence to show that he acted honestly and that in the circumstances in which the company's business was carried on the default was excusable.

(3) An officer of a company commits an offence if he—

(a) fails to take all reasonable steps for securing compliance by the company with subsection (4) of that section (period for which records to be preserved), or

(b) intentionally causes any default by the company under that subsection.

(4) A person guilty of an offence under this section is liable—

(a) on conviction on indictment, to imprisonment for a term not exceeding two years or a fine (or both);

(b) on summary conviction—

(i) in England and Wales, to imprisonment for a term not exceeding twelve months or to a fine not exceeding the statutory maximum (or both);

(ii) in Scotland or Northern Ireland, to imprisonment for a term not exceeding six months, or to a fine not exceeding the statutory maximum (or both).

Chapter 3 A company's financial year

390 A company's financial year

(1) A company's financial year is determined as follows.

(2) Its first financial year—

(a) begins with the first day of its first accounting reference period, and

(b) ends with the last day of that period or such other date, not more than seven days before or after the end of that period, as the directors may determine.

(3) Subsequent financial years—

(a) begin with the day immediately following the end of the company's previous financial year, and

(b) end with the last day of its next accounting reference period or such other date, not more than seven days before or after the end of that period, as the directors may determine.

(4) In relation to an undertaking that is not a company, references in this Act to its financial year are to any period in respect of which a profit and loss account of the undertaking is required to be made up (by its constitution or by the law under which it is established), whether that period is a year or not.

(5) The directors of a parent company must secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiary undertakings coincides with the company's own financial year.

391 Accounting reference periods and accounting reference date

(1) A company's accounting reference periods are determined according to its accounting reference date in each calendar year.

(2) The accounting reference date of a company incorporated in Great Britain before 1st April 1996 is—

(a) the date specified by notice to the registrar in accordance with section 224(2) of the Companies Act 1985 (c. 6) (notice specifying accounting reference date given within nine months of incorporation), or

(b) failing such notice—

(i) in the case of a company incorporated before 1st April 1990, 31st March, and

(ii) in the case of a company incorporated on or after 1st April 1990, the last day of the month in which the anniversary of its incorporation falls.

(3) The accounting reference date of a company incorporated in Northern Ireland before 22nd August 1997 is—

(a) the date specified by notice to the registrar in accordance with article 232(2) of the Companies (Northern Ireland) Order 1986 (S.I. 1986/1032 (N.I. 6)) (notice specifying accounting reference date given within nine months of incorporation), or

(b) failing such notice—

(i) in the case of a company incorporated before the coming into operation of Article 5 of the Companies (Northern Ireland) Order 1990 (S.I. 1990/593 (N.I. 5)), 31st March, and

(ii) in the case of a company incorporated after the coming into operation of that Article, the last day of the month in which the anniversary of its incorporation falls.

(4) The accounting reference date of a company incorporated—

(a) in Great Britain on or after 1st April 1996 and before the commencement of this Act,

(b) in Northern Ireland on or after 22nd August 1997 and before the commencement of this Act, or

(c) after the commencement of this Act,

is the last day of the month in which the anniversary of its incorporation falls.

(5) A company's first accounting reference period is the period of more than six months, but not more than 18 months, beginning with the date of its incorporation and ending with its accounting reference date.

(6) Its subsequent accounting reference periods are successive periods of twelve months beginning immediately after the end of the previous accounting reference period and ending with its accounting reference date.

(7) This section has effect subject to the provisions of section 392 (alteration of accounting reference date).

392 Alteration of accounting reference date

(1) A company may by notice given to the registrar specify a new accounting reference date having effect in relation to—

(a) the company's current accounting reference period and subsequent periods, or

(b) the company's previous accounting reference period and subsequent periods.

A company's "previous accounting reference period" means the one immediately preceding its current accounting reference period.

(2) The notice must state whether the current or previous accounting reference period—

(a) is to be shortened, so as to come to an end on the first occasion on which the new accounting reference date falls or fell after the beginning of the period, or

(b) is to be extended, so as to come to an end on the second occasion on which that date falls or fell after the beginning of the period.

(3) A notice extending a company's current or previous accounting reference period is not effective if given less than five years after the end of an earlier accounting reference period of the company that was extended under this section.

This does not apply—

(a) to a notice given by a company that is a subsidiary undertaking or parent undertaking of another EEA undertaking if the new accounting reference date coincides with that of the other EEA undertaking or, where that undertaking is not a company, with the last day of its financial year, or

(b) where the company is in administration under Part 2 of the Insolvency Act 1986 (c. 45) or Part 3 of the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), or

(c) where the Secretary of State directs that it should not apply, which he may do with respect to a notice that has been given or that may be given.

(4) A notice under this section may not be given in respect of a previous accounting reference period if the period for filing accounts and reports for the financial year determined by reference to that accounting reference period has already expired.

(5) An accounting reference period may not be extended so as to exceed 18 months and a notice under this section is ineffective if the current or previous accounting reference period as extended in accordance with the notice would exceed that limit.

This does not apply where the company is in administration under Part 2 of the Insolvency Act 1986 (c. 45) or Part 3 of the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)).

(6) In this section "EEA undertaking" means an undertaking established under the law of any part of the United Kingdom or the law of any other EEA State.

Chapter 4 Annual accounts

General

393 Accounts to give true and fair view

(1) The directors of a company must not approve accounts for the purposes of this Chapter unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss—

(a) in the case of the company's individual accounts, of the company;

(b) in the case of the company's group accounts, of the undertakings included in the consolidation as a whole, so far as concerns members of the company.

(2) The auditor of a company in carrying out his functions under this Act in relation to the company's annual accounts must have regard to the directors' duty under subsection (1).

Individual accounts

394 Duty to prepare individual accounts

The directors of every company must prepare accounts for the company for each of its financial years.

Those accounts are referred to as the company's "individual accounts".

395 Individual accounts: applicable accounting framework

(1) A company's individual accounts may be prepared—

(a) in accordance with section 396 ("Companies Act individual accounts"), or

(b) in accordance with international accounting standards ("IAS individual accounts").

This is subject to the following provisions of this section and to section 407 (consistency of financial reporting within group).

(2) The individual accounts of a company that is a charity must be Companies Act individual accounts.

(3) After the first financial year in which the directors of a company prepare IAS individual accounts ("the first IAS year"), all subsequent individual accounts of the company must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(4) There is a relevant change of circumstance if, at any time during or after the first IAS year—

(a) the company becomes a subsidiary undertaking of another undertaking that does not prepare IAS individual accounts,

(b) the company ceases to be a company with securities admitted to trading on a regulated market in an EEA State, or

(c) a parent undertaking of the company ceases to be an undertaking with securities admitted to trading on a regulated market in an EEA State.

(5) If, having changed to preparing Companies Act individual accounts following a relevant change of circumstance, the directors again prepare IAS individual accounts for the company, subsections (3) and (4) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

396 Companies Act individual accounts

(1) Companies Act individual accounts must comprise—

(a) a balance sheet as at the last day of the financial year, and

(b) a profit and loss account.

(2) The accounts must—

(a) in the case of the balance sheet, give a true and fair view of the state of affairs of the company as at the end of the financial year, and

(b) in the case of the profit and loss account, give a true and fair view of the profit or loss of the company for the financial year.

(3) The accounts must comply with provision made by the Secretary of State by regulations as to—

(a) the form and content of the balance sheet and profit and loss account, and

(b) additional information to be provided by way of notes to the accounts.

(4) If compliance with the regulations, and any other provision made by or under this Act as to the matters to be included in a company's individual accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

397 IAS individual accounts

Where the directors of a company prepare IAS individual accounts, they must state in the notes to the accounts that the accounts have been prepared in accordance with international accounting standards.

Group accounts: small companies

398 Option to prepare group accounts

If at the end of a financial year a company subject to the small companies regime is a parent company the directors, as well as preparing individual accounts for the year, may prepare group accounts for the year.

Group accounts: other companies

399 Duty to prepare group accounts

(1) This section applies to companies that are not subject to the small companies regime.

(2) If at the end of a financial year the company is a parent company the directors, as well as preparing individual accounts for the year, must prepare group accounts for the year unless the company is exempt from that requirement.

(3) There are exemptions under–

- section 400 (company included in EEA accounts of larger group),
- section 401 (company included in non-EEA accounts of larger group), and
- section 402 (company none of whose subsidiary undertakings need be included in the consolidation).

(4) A company to which this section applies but which is exempt from the requirement to prepare group accounts, may do so.

400 Exemption for company included in EEA group accounts of larger group

(1) A company is exempt from the requirement to prepare group accounts if it is itself a subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA State, in the following cases—

(a) where the company is a wholly-owned subsidiary of that parent undertaking;

(b) where that parent undertaking holds more than 50% of the allotted shares in the company and notice requesting the preparation of group accounts has not been served on the company by shareholders holding in aggregate—

(i) more than half of the remaining allotted shares in the company, or

(ii) 5% of the total allotted shares in the company.

Such notice must be served not later than six months after the end of the financial year before that to which it relates.